Charging of highest interest rate by banks

*137. SHRI RAJEEV CHANDRASEKHAR: Will the Minister of FINANCE be pleased to state:

(a) whether Government/RBI have received complaints that certain Non-Banking Financial Companies and Private Sector Banks are charging unduly high rates of interest, to the extent of 60 per cent PA, from their borrowers and are also harassing them in various ways;

(b) if so, the details thereof;

(c) whether Government/RBI propose to fix maximum rate of interest for these institutions/banks and also lay down other directions for them; and

(d) if so, by when that is likely to be done?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) and (b) Some complaints have been received by Government/Reserve Bank of India alleging that excessive interest and other charges are being levied by banks/Non-Banking Finance Companies (NBFCs) on loans and advances.

(c) and (d) As per the extant interest rate policy of Reserve Bank of India, interest rates on loans given by Commercial Banks (including loans granted to farm sector)/ NBFCs have been deregulated. In case of Commercial Banks, the interest rate on loans up to 2 lakh should not exceed the Benchmark Prime Lending Rate (BPLR) of the banks concerned. Therefore, Commercial Banks are free to decide their lending rates on loans above Rs. 2 lakh subject to the announcement of BPLR. Banks are also free to lend at sub-BPLR rates to creditworthy borrowers based on an objective and transparent policy, subject to the approval of their Boards. Banks decide their BPLR by taking into account, *inter alia*, their cost of funds, transaction cost and risk cost.

In case of NBFCs, if the Money Lenders Act passed by the State Government includes NBFCs within the definition of 'Money Lenders' and the State Government concerned has not exempted NBFCs from the provisions of Money Lenders Act, in such case if the State Act provides for any ceiling on rate of interest on lending, NBFCs operating in that State will be subject to the provisions of rate of interest prescribed in the State Money Lenders Act.

RBI, *vide* its circulars issued from time to time, has advised banks/NBFCs to have an objective and transparent policy approved by their Boards for fixing interest rates on loans and advances. In case of short term advances granted to small and marginal farmers, Banks have been advised to ensure that interest applied does not exceed principal amount.

Further, guidelines issued by RBI on 'Fair Practice Code for Lenders', *inter alia*, stipulate that the lender should convey to the borrower the credit limit along with the terms and conditions thereof and keep the borrower's acceptance of these terms and conditions, given with his full knowledge, on record. Terms and conditions and other caveats governing credit facilities, given by banks/financial institutions, arrived at after negotiation by lending institution and the borrower, should be reduced in writing and duly certified by the authorized official. A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement should be furnished to the borrower.